

**CITY OF SPOKANE**  
**Spokane County, Washington**  
**January 1, 1992 Through December 31, 1992**

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**Schedule Of Findings**

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1. The City Should Comply With Federal Grant Requirements

The city does not have a comprehensive system of administrative controls that facilitate the identification, implementation, and monitoring of federal grant requirements. This condition contributed to the following violations of federal law or regulation:

a. Grant Records

The city did not maintain project records to demonstrate code enforcement efforts for commercial projects on Bonneville Power Administration contract DE-FC79-88BP93457.

The contract states in part:

Project records must be maintained for a minimum of three years as required by OMB Circulars. Each jurisdiction shall maintain files, which include individual building plans and specifications; a log of all energy related plan review documents (i.e., energy component analysis checklists, computer printouts and calculations); inspection checklists and reports; and all follow-up inspection reports.

The city failed to change procedures when notified by program monitors that the records would not be sufficient to demonstrate compliance. City staff felt the records were sufficient to meet program requirements.

Because the required information was not maintained, we were not able to determine if the city qualified for \$253,200 received for implementation and enforcement. This amount is noted on the Schedule of Questioned Costs.

b. Program Income

The city has not established adequate policies and procedures for reporting program credits.

The city failed to return a portion of liquidated damages received on project FAM BRM 3909(1) funded by Federal Highway Administration (CFDA 20.205) in a timely manner.

The city received \$10,998 in liquidated damages on March 24, 1988; of which \$8,798 represents the federal participation on this project. This amount is detailed on the Schedule of Questioned Costs.

The city retained these funds to be used if and when the project needed repair.

The *Compliance Supplement for Single Audits of State and Local Governments* issued by the Office of Management and Budget requires federal aid projects to be credited with the federal share of compensatory damages.

c. OMB Circular A-87 ) Cost Principles

During our review of the city's indirect cost plan we noted some department revenues were not deducted from expenditures prior to allocation.

OMB Circular A-87 requires federal costs to be reduced by applicable credits before they are charged as direct or indirect costs.

The revenues were not deducted from departmental costs prior to allocation because the preparer of the indirect cost plan was not aware of all interdepartmental charges. This issue is further complicated by the city billing some cost centers by methods other than that stated by the indirect cost plan.

We could not readily determine the impact of this deviation on the indirect cost applied against the Community Development Block Grant (CFDA 14.218). Furthermore, we have not included an amount on the Schedule of Questioned Costs.

d. Federal Reports

The Grantee Performance Report (GPR) for the Community Development Block Grant (CFDA 14.218) for the year ended June 30, 1992, was due September 30, 1992. The GPR was not filed until November 23, 1992.

24 CFR 570.507(a)(2)(i)(A) states that grant recipients are to submit the GPR:

. . . no later than 90 days after the completion of the most recent program year showing the status of all activities as of the end of the program year . . .

The GPR was not completed as required because staff efforts were diverted to other projects with higher priority.

e. Subrecipient Monitoring

The city did not monitor subrecipients who received Community Development Block Grant funds (CFDA 14.218) or Emergency Shelter Grant funds (CFDA 14.231) for the 1991-92 program years. Additionally, the city failed to follow up on issues raised during the monitoring visits for program year 1990.

24 CFR 570.501(b) states in part:

The recipient is responsible for ensuring that CDBG funds are used in accordance with all program requirements. The use of designated public agencies, subrecipients, or contractors does not relieve the recipient of this responsibility. The recipient is also responsible for determining the adequacy of performance under subrecipient agreements and procurement contracts, and for taking appropriate actions when performance problems arise

. . . .

24 CFR 576.81 makes the recipient of federal grant funds responsible for ensuring that subrecipients comply with all requirements of the Emergency Shelter Grants program.

The city's community development department did not complete the monitoring requirements because staff resources were directed to other projects.

f. Subaward Procedures

The city has not implemented procedures to assure contracts are not executed with prohibited organizations.

*The Compliance Supplement for Single Audits of State and Local Governments* issued by the Office of Management and Budget requires grant recipients to:

. . . not make or permit any award, at any tier, to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal Assistance Programs.

Adequate procedures were not implemented for all acquisitions involving federal funds because city personnel felt this requirement was restricted to construction contracts.

Failure to comply with these federal laws and regulations could jeopardize the city's ability to obtain future grant funding. Furthermore, it has resulted in \$261,998 of questioned costs which may have to be repaid to federal agencies (see the Schedule of Questioned Costs).

We recommend the city develop a comprehensive system of administrative controls to ensure that federal requirements are identified, implemented, and monitored.

2. The City Should Comply With State Grant Requirements

The city purchased property using Washington State Transportation Improvement Board (TIB) funds (Project 8-3-165(9)). A portion of the property was subsequently sold to Washington State Department of Transportation for \$40,000. Additionally, the city collected \$6,600 in rental payments on the property. The city did not report either the sale or rental income as a reduction of project costs.

Transportation Improvement Board *Guideline No. 6 ) Reimbursement From Trust Account and Audit Requirements* states in part:

(3)(f) . . . Amounts from the sale of excess real property or improvements and from any rentals shall be a reduction of the direct cost.

We were not able to obtain a reasonable explanation as to the retention of these funds.

We recommend the city return the state portion of revenue generated. Additionally, we recommend the city implement adequate controls and supervisory review to assure compliance with state grant requirements.

3. Land Values Claimed For Grant Reimbursement Should Be Supported By City Records

The city claimed property purchased with a fair market value that is not consistent with other evidence and city records to the Washington State Interagency Committee for Outdoor Recreation (IAC).

The city purchased land for the Fish Lake Trail. City records, documents, appraisals, and a signed option to purchase, establish the Fair Market Value of real property acquired as \$230,000 less the cost of cleaning up an existing illegal dump site on the property.

However, after further negotiation the seller was compensated by \$142,000 cash and provided IRS form 8283 for a tax deduction in the amount of \$573,000. The city requested the maximum reimbursement available of \$200,000 based on a \$715,000 value.

The city used the higher value to obtain additional funding for the project.

We do not believe there is sufficient justification to support the \$715,000 basis used for reimbursement purposes.

We recommend IAC recalculate and determine the appropriate value for land purchased.

4. The City Should Restrict Expenditures To Uses Authorized By State Law

We noted the following instances where expenses were improperly recorded in one fund while the majority or all of the benefit derived was for other funds:

- a. A personnel technician was charged to the Sewer Fund that actually worked for and reported to the personnel department (General Fund). During the years 1984 through 1992 the Sewer Fund paid salary and benefits of at least \$304,144 to support this position.
- b. During 1991, the General Fund purchased land which contained an illegal dump site. Expenses were incurred in the following funds to clean up and improve the property: Street Fund \$106,166, Solid Disposal Project Fund \$2,486, and Solid Waste Management Fund \$41,588. These costs were not reimbursed by the General Fund.
- c. The Fleet Services Fund incurred costs of \$31,200 from 1981 through 1992 renting a parking lot. The majority of the lot was used by other city funds, while only Fleet Services and one other fund incurred rental costs.

RCW 43.09.210 states in part:

. . . All service rendered by . . . one department . . . shall be paid for at its true and full value by the department . . . receiving the same, and no department . . . shall benefit in any financial manner whatever by any appropriation or fund for the support of another.

These situations resulted from management focusing on expediency and the lack of formal policies to prevent them.

This has resulted in an improper decrease in the financial resources of the affected funds listed above, lessened the financial burden of the General Fund, and circumvention of the budget.

We recommend services provided by restricted funds be billed and paid by for by benefiting departments. We further recommend policies be developed and followed to prohibit this situation from reoccurring.

5. The City Should Strengthen Accounting Controls And Procedures

a. Fixed Assets

As noted in prior reports the city's fixed asset accounting and associated controls were not adequate. The same situation existed during 1992.

During 1991, the city completed the development of a new fixed asset system. The city is in the process of developing and implementing policies and procedures associated with this new system.

For the period under audit, the city could not demonstrate that all assets were added to or properly removed from inventory records. Furthermore, the city was not able to reconcile all subsidiary ledgers to the amounts presented in the financial statements.

b. Accounts Receivable

During our review we noted the following instances which demonstrate the city does not have a accounts receivable system which is sufficient to ensure non-routine transactions are recorded.

(1) As noted in Finding 4, some funds provided services for the benefit of other funds and no billing or accounts receivable were established for these costs.

(2) In addition, the city had failed to establish accounts receivable for two contracts totaling almost \$8,000,000 in the Enterprise Fund Group.

c. Reporting

The financial statements and supporting schedules originally presented for audit contained several errors. We noted several problems including:

(1) The Schedule of Federal Financial Assistance included incorrect CFDA numbers, incorrect classification of federal assistance, incorrect format and the schedule did not total to the amount presented. Additionally, the city failed to reconcile the grant schedule to the general ledger.

(2) The Schedule of Long Term Debt included some debt that was paid and failed to include a major new issue.

(3) Interfund contributions were improperly recorded for assets purchased and transferred.

(4) Completed construction projects were not transferred to the detailed asset records in a timely manner.

In the absence of an adequate control structure the city could not assure accountability of all assets. This increases the possibility of loss or misappropriation, and results in a qualification of our report on the city's financial statements.

We recommend the city develop a control structure to eliminate these weaknesses.